GP Dashboard

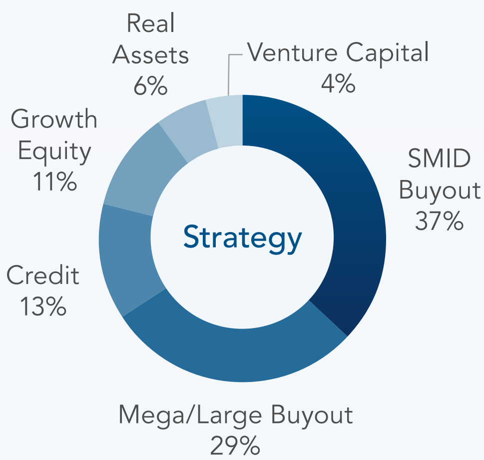
We are pleased to present Hamilton Lane's 2016 GP Dashboard, which captures the opinions and expectations of general partners from around the world and offers insight into where the GP community believes the markets are headed. This year's survey features results from 76 of the most well-known and top-performing general partners, providing their insight into the broader global markets as well as their specific portfolios.

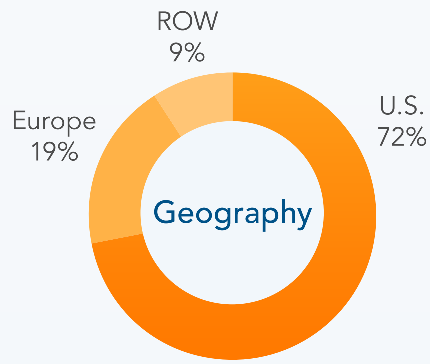
76
GPs

19.5
Average Years in Business

600+
Funds Managed
by GPs in the Survey

$950B+
Raised
by GPs in the Survey





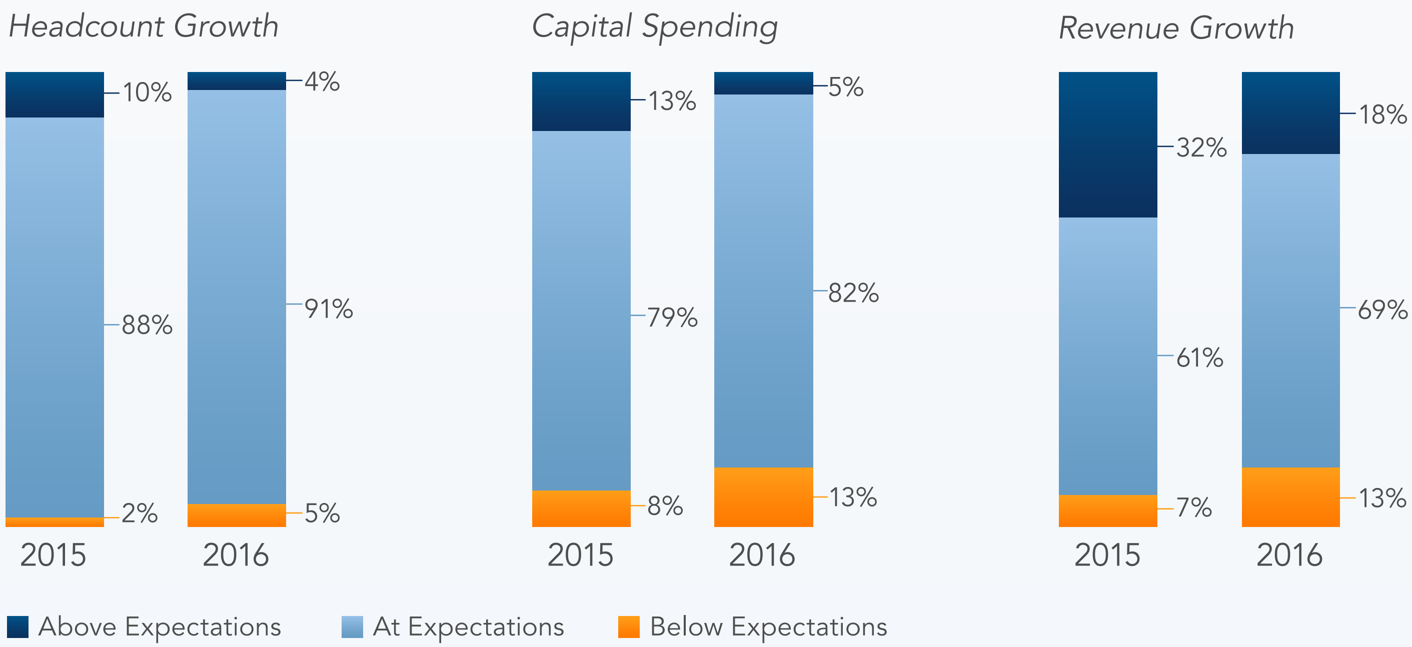
Highlights from the 2016 GP Dashboard include:

- Growth remains a key area of concern for portfolio company CEOs
- Steady stream of exit activity expected, though contingent upon state of the capital markets
- GP wariness around valuation levels remains and is reflected in underwriting standards
- Majority of LPs continue to seek out co-investment opportunities, though ability to execute remains a question
- Most GPs experiencing secondary transactions in their funds
- Private equity return expectations hovering right around average

No Major Surprises in Portfolio Performance, but CEO Concerns Remain

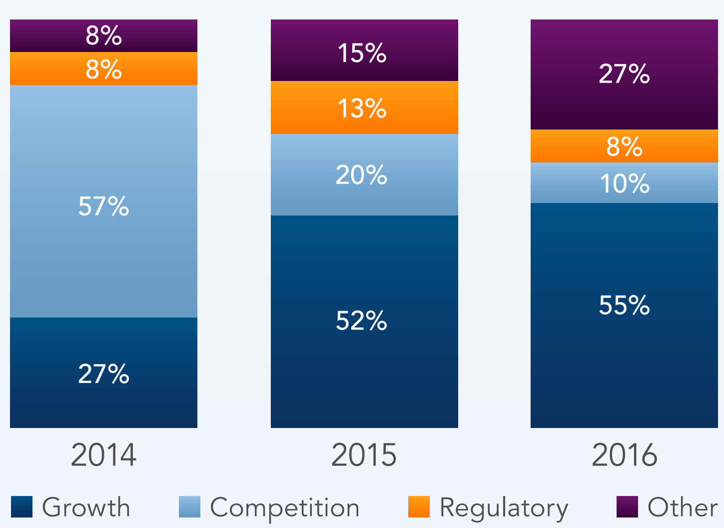
We asked general partners how their portfolio companies are performing, specifically as it relates to headcount, capital spending and revenue growth. Similar to past years, there are no big surprises in these areas, which largely continue to perform in line with GP expectations. While a relatively small group overall, those responding that portfolio company revenue was performing below expectations nearly doubled this year. Combined with the decrease in those responding that revenue growth surpassed expectations, general partners will undoubtedly continue to carefully monitor revenue performance in their portfolio companies and look for opportunities to positively shift revenue figures.

Over the Past Year



When it comes to the biggest worries being voiced by CEOs, growth in underlying portfolio companies maintains its place at the top of the list for the second year in a row. Equally interesting is that competition, despite being cited as the single biggest worry just two years ago, today comes in at just 10% on the list of concerns facing CEOs. Generally speaking, the consistency of this group's expectations year-over-year likely reflects the fact that our GPs and their portfolio companies continue to operate against a steady backdrop of low, slow growth around the globe.

CEO Worries

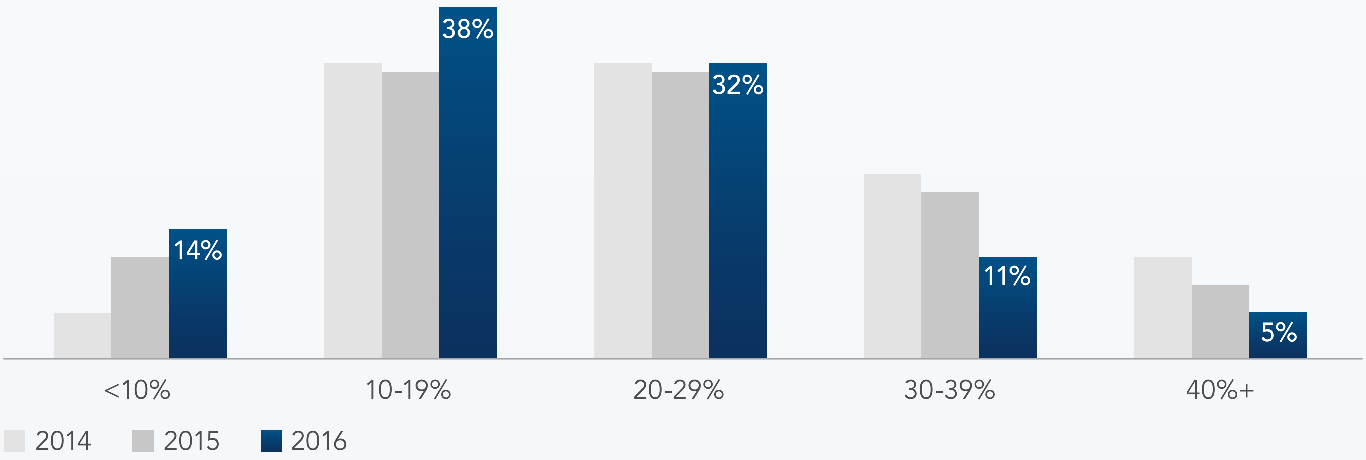


Exit Activity Maintains Steady Stream

Since first conducting this survey in 2014, we've seen a steady year-over-year reduction in the 30%+ category of GPs' portfolios that are pursuing exits, with a correspondingly steady increase in the expectation that <10% of portfolio companies will pursue exits within the coming year. Not unlike prior years, 70% of GPs polled expect to pursue an exit of anywhere from 10%-29% of their portfolio over the next 12 months.

While we continue to see an even stream of exit activity in the pipeline, the inventory of portfolio companies actively pursuing exits is nevertheless declining. Ultimately, the pace and volume of exits will depend heavily on the state of the capital markets.

% of Portfolio Actively Pursuing Exit Within the Next 12 Months



GPs Stick to Their Underwriting Standards

Our poll shows that GPs have exercised consistent discipline around underwriting, with nearly 80% underwriting new deals to similar standards as last year. Given the low interest rate environment, we believe this reflects a continued wariness within the GP community about the future, coupled with a desire to maintain high standards. It is also interesting to see that once again, almost 90% of respondents believe that their competition underwrites to lower returns than they do – if not always, at least on occasion.

Changes in Underwriting of New Deals in Past Year

5%	Higher
79%	Stayed the same
16%	Lower

My Competition Underwrites to Lower Returns Than I Do

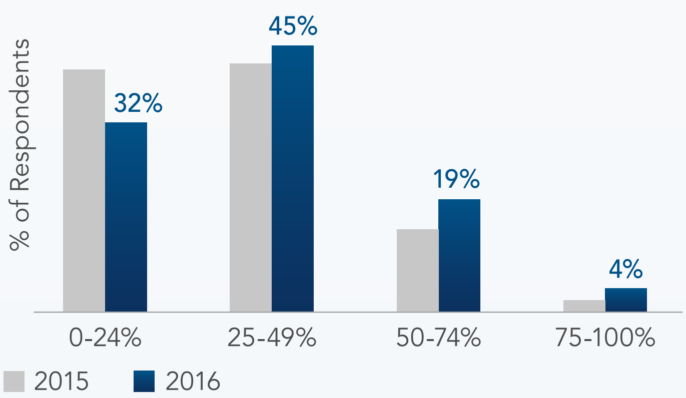
	Yes	Sometimes	No
2016	43%	46%	11%
2015	50%	47%	3%

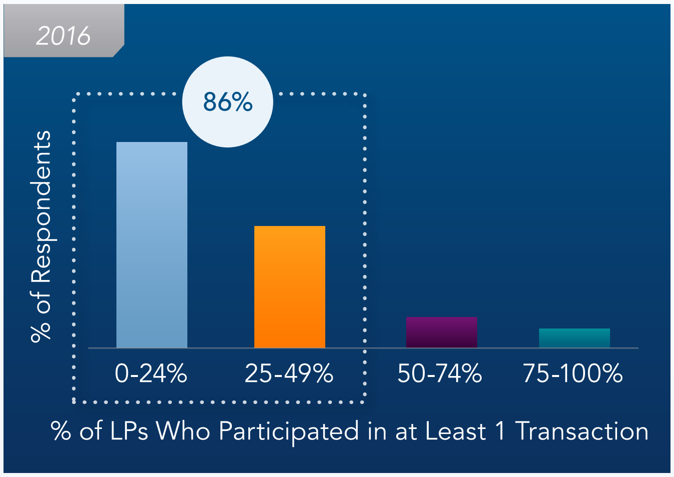
LPs’ Demand for Co-Investment Opportunities Persists

Co-investments continue to be in demand by LPs, largely because of their ability to generate higher potential returns. Of the general partners we polled, nearly one-quarter report that more than half of their LPs want co-investment opportunities. That’s a meaningful increase in what was already high demand.

What remains an issue is LPs’ ability to execute on those deals. In fact, 86% of GPs say that fewer than half of those seeking these deals have participated in at least one transaction. We believe this imbalance is due to a misunderstanding around the resources, expertise and discipline necessary to execute co-investment transactions well.

% of LPs Asking To See Co-Invest Opportunities



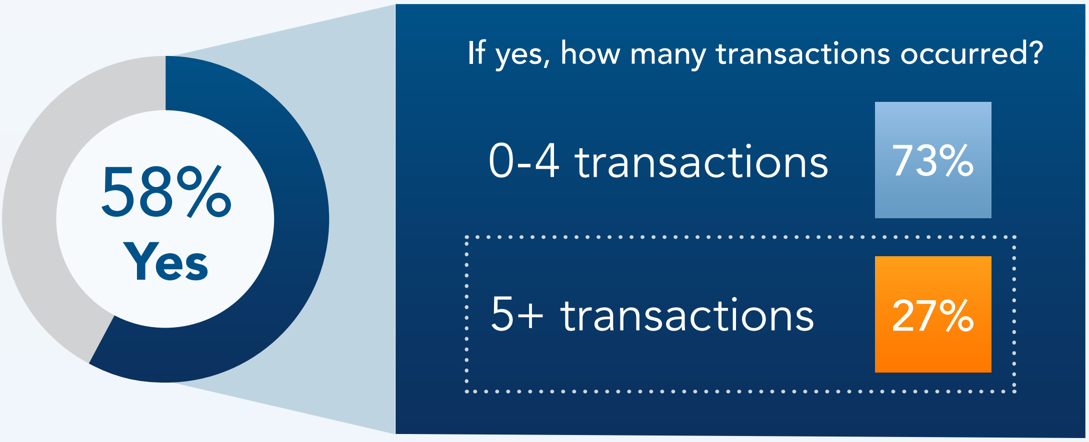


Secondary Transactions Increasing for GPs

A majority of GPs (58%) report having experienced LPs selling interests in their fund over the past year. Additionally, more than 25% report that five or more such transactions have occurred.

It’s important to keep in mind that we polled some of the best GPs in the world; those who are not re-structuring their funds or are otherwise unable to fundraise, and yet, secondary transactions of their fund interests are occurring regularly.

In the past 12 months, have any of your LPs sold their interests on the secondary market?



GP Sentiment for What to Expect in 2016/2017

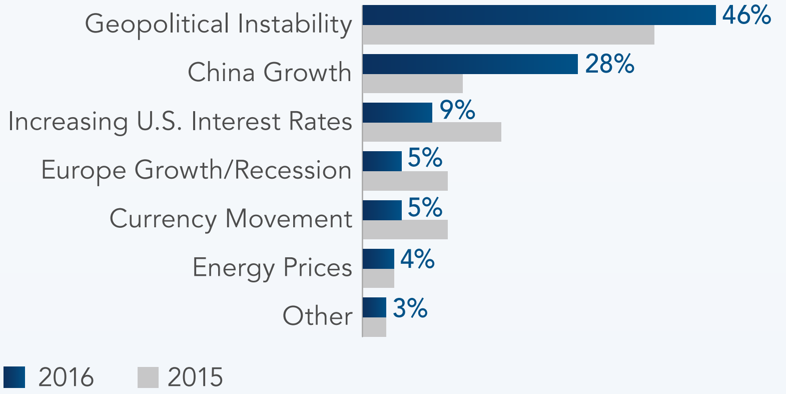
Geopolitical instability once again tops the list of what GPs consider to be the biggest risk for the world macro economy, growing to 46% of responses in this year's survey. Interestingly, concern over increased U.S. interest rates has diminished somewhat, whereas growth in China was cited this year as the second-highest area of concern.

North America again received the majority vote as the market providing the most improved risk-reward trade off over the next 12 months. While Asia experienced a slight increase in sentiment last year, it has dropped back to near 2014 levels. The European market saw a dramatic decrease in the view of its prospects relative to other geographies. It is important to note that our survey took place prior to Brexit – meaning this group of GPs was exercising caution around investment opportunities in Europe even before the UK voted to leave the EU. This likely reflects the uncertainty leading up to the referendum as well as concern over some of the other social and economic issues facing the continent.

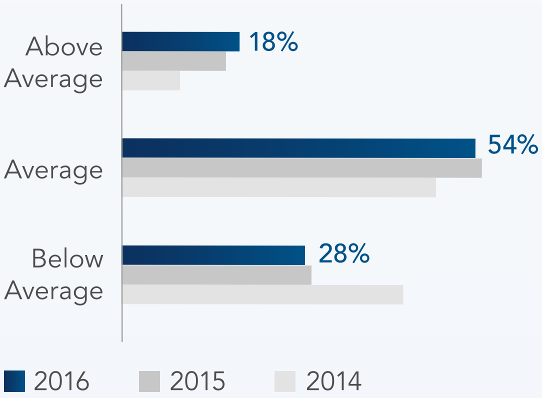
Although the past two years have each seen a gradual uptick in performance expectations among GPs, we see that these fund managers agree we are in decidedly average times in terms of PE returns. While the number of GPs anticipating below average returns isn't increasing dramatically, it isn't decreasing much either.

Over the Next 12 Months

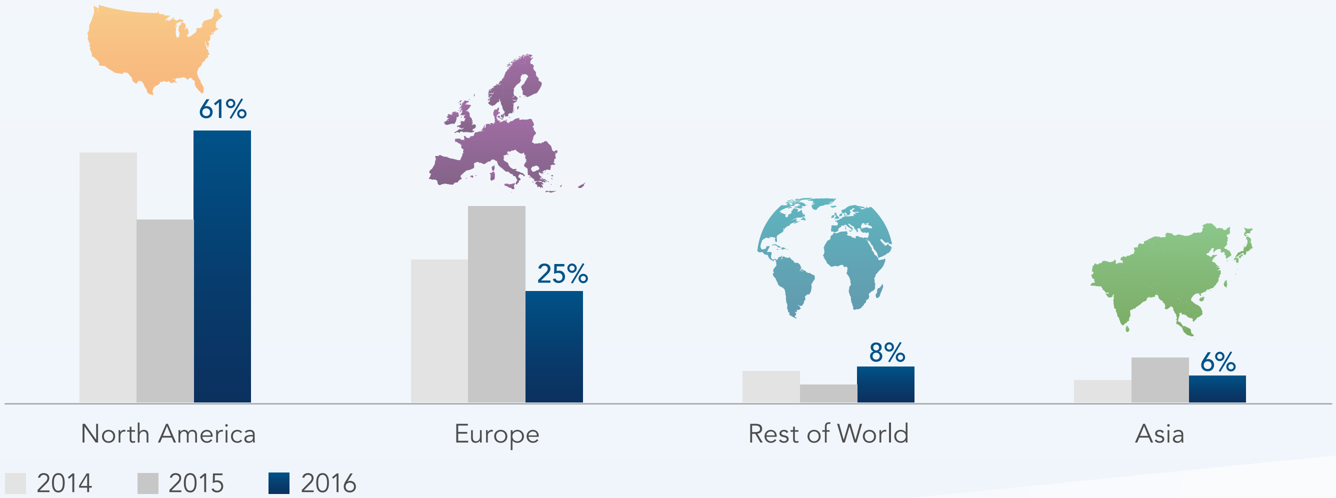
Biggest Risk/Concern for World Macro Economy Will Be:



PE Returns Will Be:



Markets with Most Improved Risk/Reward Trade Off in Next 12 Months vs. Last 12 Months



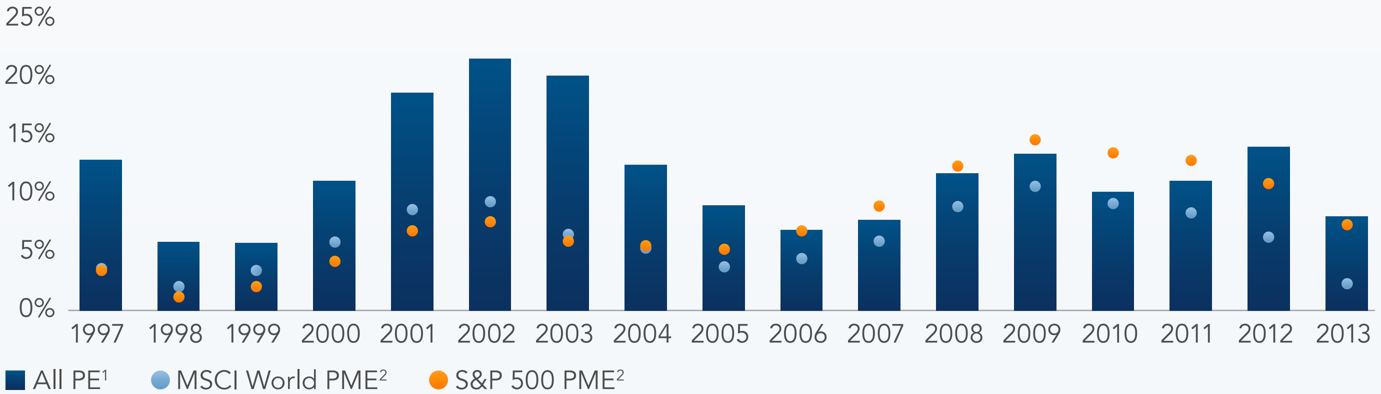
Conclusion

So what's our outlook for the upcoming year? There's been plenty of talk that we're headed toward a top in the private equity market. From our point of view, we're certainly closer to a market top than bottom – albeit not dangerously so. We don't anticipate a recession occurring in the next year; however, we do agree with the GP sentiment that 2016 is likely to be an average return period for private equity deals, and that we're generally in a boring, middle-of-the-road part of the cycle. To be clear, boring isn't necessarily bad, particularly for the private markets, which have managed to outperform the public markets across many cycles.

Faced with pockets of political and financial uncertainty around the globe, we are a bit more cautious about specific regions and sectors; yet we believe there is still plenty of opportunity to be seized in other segments. (If you want to know what those are, please give one of us a call; we love talking about this stuff.)

Private Equity vs. Public Market Equivalent Benchmark

All PE Net IRR vs. MSCI World PME and S&P 500 PME, by Vintage Year



Source: Hamilton Lane Fund Investment Database, MSCI, Bloomberg (July 2016)

Thank you for reading our third edition of the Hamilton Lane GP Dashboard. We will continue to conduct this survey and analysis on an annual basis, and hope you found this year's findings of interest.

As always, we would welcome the opportunity to discuss any reactions or questions you may have about the GP Dashboard, in particular, or about the markets more broadly.

Endnotes

[1] The Hamilton Lane All Private Equity Index tracks the performance of private equity strategies including buyout, venture capital, credit, growth equity and other special situation strategies. The index excludes real estate, fund-of-funds, and secondary fund-of-funds. Net IRR is net of all management fees, carried interest and expenses charged by the general partners of the funds in the index.

[2] The indices presented for comparison are the MSCI World and the S&P 500, calculated on a Public Market Equivalent (PME) basis. The PME calculation methodology assumes that capital is being invested in, or withdrawn from, the index on the days the capital was called and distributed from the underlying fund managers. Contributions were scaled by a factor such that the ending portfolio balance would be equal to the private equity net asset value. The scaling factor is found by taking the sum of all shares sold (SS), the sum of all shares purchased (SP) and calculating the number of shares the ending value is worth (SEV). Dividing SEV + SS by SP solves for the PME scaling factor. The scaling of contributions prevents shorting of the public market equivalent portfolio in order to match the performance of an outperforming private equity portfolio. Realized and unrealized amounts were not scaled by this factor. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The S&P 500 Total Return Index is a capitalization weighted index that measures the performance of 500 U.S. large cap stocks. The indices are presented merely to show general trends in the markets for the relevant periods shown. The indices are unmanaged, has no expenses and reflects the reinvestment of dividends and distributions. The spreads are provided for comparative purposes only.

Disclosures

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As of November 14, 2016